



STATE BOARD LEDGER

*A Publication of the Kentucky State Board of
Accountancy*

332 W. Broadway Louisville, KY 40202

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SUMMER 2003

GREETINGS FROM RICHARD CARROLL THE NEW EXECUTIVE DIRECTOR

As many of you are already aware, Susan Stopher retired as executive director of the Board on July 31, 2002. On October 31, 2002, I resigned from the Attorney General's Office to become executive director for the Board. For 15 of the 16 years that Susan served as the Board's executive director, I functioned as the legal counsel for the Board. Therefore while I am new to the position, I am very familiar with the issues the Board and the public accounting profession have dealt with over the years and currently face.

One issue that I had not experienced while serving as legal counsel for the Board was the severe financial problem Kentucky state government has found itself in over the last two years. Even though the Board relies solely on fees collected from licensees and exam candidates to cover its expenses, as a result of being a state agency the Board is still adversely impacted by state budget problems. One recent effect was a significant reduction in the balance of the Board's reserve account that had accrued over the years. This money was transferred from the reserve fund of the Board to the general fund of the state during the 2003 session of the General Assembly. Nevertheless the operations of the Board were not adversely affected, so please feel free to contact the Board staff and me for assistance.

At this time I would like to provide everyone with some brief updates on topics of interest:

Computerized Exam - The November 2003 Uniform CPA Exam will be the last paper and pencil exam administered by the Board. Beginning April 5, 2004, exam candidates will be required to

sit for the computer-based version of the examination. A new administrative regulation that describes the procedures the Board plans to implement for the computer-based exam has been filed with the Legislative Research Commission in Frankfort and approved by the Administrative Regulation Review Subcommittee. It is anticipated that the regulation will go into effect in October of this year. The Board is planning to accept applications for the computer based exam beginning in January of 2004. For additional information and updates please refer to the Board's website at <http://cpa.ky.gov>

Pre-test of the Computer Exam - The AICPA, as part of the implementation of the computer based exam, created a pretest version of the exam. The Board staff on behalf of the AICPA has already administered the pretest at the University of Louisville, Morehead State and Northern Kentucky University. In the coming months the pretest will be administered by the staff of the Board at the following locations: the University of Louisville (October 16-18), and Western Kentucky University (November 20-22). If you are interested in the details of the pretest exam, please contact Phyllis Gordon at the Board office.

Responding to Complaints - In this edition of the State Board Ledger everyone will see a few cases in the disciplinary section where CPA's failed to respond to a complaint sent to him or her from the Board. In general, the complaints were received by the Board from a former or present client of the CPA. When the Board receives such a complaint a copy is sent to the CPA for a response. Failure to respond to a complaint is a basis for the Board to

take action against a CPA's license. After instances over the years of CPA's either failing to respond to these complaints or doing so only after repeated requests from staff, the Board decided to begin imposing fines against such CPA's even if the initial complaint is dismissed by the Board or withdrawn by the client. Therefore I urge all CPA's to respond to such inquiries from the Board within the time limit contained in the cover letter, or you may find yourself being subjected to a fine even though the underlying complaint was dismissed.

Practicing without a License - The Board has also instituted a new policy of having one of its investigators check to determine if CPA's who fail to renew their licenses are continuing to practice. This decision was based on the Board's concern that after December 31st of each year there may be some individuals and firms continuing to practice without a license. Please remember that as of July 1st of each calendar year one half of the licenses expire. If you have failed to renew your license prior to July 1 of your renewal year you are prohibited by law from holding yourself out as a CPA or engaging in the practice of public accounting. While you may be able to renew your license prior to December 31st of each year without having to go through a reinstatement process, you are still prohibited by law from holding yourself out as a CPA or continuing to practice until the license is renewed. Recently, the investigator discovered several instances of unlicensed practice occurring and the Board levied fines against each CPA or firm in the amount of \$500.

Renewal of licenses and student loans - Those who renewed their license this year, were required to answer a question on the renewal form regarding whether or not they have student loans with the Kentucky Higher Education Assistance Authority ("KHEAA") and the status of that loan. The Board is required by virtue of a law passed in the last session of the Kentucky General Assembly to include this question on the renewal form. The Board is prohibited from renewing the license of anyone who is considered by the KHEAA to be in default on a student loan.

Online renewal of licenses - The Board is currently researching the capability of online license renewal

through our web site. In other states that have implemented this process it was well very received.

Peer Review - We are continuing to experience difficulty in renewing firm licenses due to issues related to peer review. Under the requirements of the Board, if your firm is performing an audit, review or compilation the firm must submit a final letter of acceptance from the Report Acceptance Body ("RAB") to renew its license. The RAB acceptance letter will indicate that the review was accepted and will also contain the date of your next peer review.

Some firms at the time of license renewal may be at the stage in the review process where the review report has been submitted to a RAB for approval. The Board has agreed to renew the license of a firm in such a situation but the renewal is contingent upon receipt of a final acceptance letter from the RAB within a brief period of time. If a final acceptance letter is not provided to the Board within the time frame indicated the license will be revoked.

Please note that sometimes a RAB will issue a letter to a firm indicating that the review was accepted contingent upon completion of certain remedial measures. While this letter indicates approval of the report, it cannot be used as evidence of successful completion of the peer review program since the process is not complete until the final letter is issued by the RAB. If the firm finds itself in this situation, contact Vicki Blair, Peer Review Administrator at the Kentucky Society of CPAs [502.266.5272] or Debby Abell [502.595.3037] at the Board office for further information.

BOARD INSTALLS OFFICERS FOR 2003-2004

At its meeting on June 26, 2003, the Board held elections for officers for 2003-2004. Joyce M. Smith, CPA was elected President. Ms. Smith is a shareholder in the public accounting firm of Ecken & Smith, PSC in Louisville. The Board elected John W. Clay, CPA as Secretary/Treasurer. Each officer will serve through June 2004.

CPA UPDATE – Reflects information from July 2002 – June 2003 Meetings

CPE Waivers

Bobby G. Adkins, 3361
Richard Wayne Boyd, 2345
Mary Ann Deavy Brorering, 6826
Robert S. Cohen, 1981

James M. Garrett, 2871
Howard J. Harmon, 1043
Donald E. Hayden, 1105
Earl M. Kalkbrenner, 1340

Lewis E. Gregory, 1408
John A. Mattingly, 2098
Richard W. Morgen, 881
Ronald L. Payne, 1628

Voluntary Surrender of Licenses

Juli Able, 6299
P. Gary Abshier, 5597
Michael P. Alerding, 8634
David K. Arble, 4614
Vanessa C. Barker, 6352
George R. Bauernfeind, 5060
Yoshiko Boley, 8232
Donald T. Bornhorst, 4701
Carl Bossung, 5938
Stephen T. Broz, 6065
Anthony Caldwell, 7930
Frances C. Caldwell, 7414
Christopher Camp, 8242
Chad E. Clark, 8367
Lori-Anne Clark, 6416
Michael R. Combs, 6510
James W. Crenshaw, 4142
Paul L. Dillingham, Jr., 625
Robert E. Duckworth, 8163
Kelly G. Duncan, 4624
Chad S. Dworsky, 7580
Patrick C. Edwards, 7352
Cathy Claxton Elmore, 5194
Michael E. Farmer, 8650
Deborah L. Fernow, 8189
Mary Cathryn Green, 5840

Larry A. Hartog, 3639
Paul Haydon, 4317
Kelvin Haynes, 4008
James A. Hecker, 6932
Michael J. Heeb, 4170
Daniel C. Heil, 3337
William G. Hodge, Jr., 1903
Janis C. Holloway, 6118
William D. Hostler, 8172
Sara Imhoff, 4056
Mark D. Jessee, 3558
Robyn Lee Keim, 8364
Timothy L. Kelly, 7180
Rana D. Lacer, 8581
Shelly Sichveland Likosar, 6500
Brian L. Marcum, 6141
John S. McCarty, 8201
Carrie Turner McElroy, 7472
Cassie McGruder, 8616
Lisa D. McKiernan, 4310
Bradley J. Mescher, 7371
Jack B. Millikin, 1624
Amy J. Muth, 7522
Sandy K. Nolan, 7182
William Brent Palmer, 8264
Michelle Lynn Patton, 7800

Daniel L. Peterworth, 2317
Allan Phillabaum, 8302
Joe E. Poe, 3645
Howard M. Pulliam, 2836
Deborah Lynn Ratliff, 7354
Patricia B. Rice, 3672
Elizabeth Ann Rosenbalm, 6150
Sara Row, 8220
Elizabeth McTighe Schmelzer, 5487
Scott A. Shepherd, 4378
Jacqueline Smith, 1710
Traci L. Sowersby, 8094
Robert W. Summerhays, Jr., 1302
Cary Ann Tabeling, 6022
Shirley W. Thurmond, 3709
A. Ronald Turner, 1379
David A. Vaughn, 8454
Bryan O. Walker, Jr., 1638
Mary Ashley Thacker Welch, 6024
Kenneth Dwayne West, 6839
Laura Lee Whiteside, 5207
William A. Wilburn, 3853
Nancy D. Williamson, 2496
Stephanie J. Wilson, 6892

Reinstatement of CPA License

(Mary) Lynn Lasley Bartrum, 5663
Kristi Lynn Behm, 7140
Ann M. Bongiolatti, 5287
Todd Breckel, 4576
Anthony M. Caldwell, 7930

Kendall L. Hoban, 5604
Amy R. Kaine, 7338
Michael Kraus, 2163
Michael Lannon, #1759
Cassie McGruder, 8616

Kevin L. Meenach, 3722
Michael F. Mullen, 5586
Jeffrey R. Oehler, 6724

DISCIPLINARY ACTIONS

Pursuant to regulation, the Board is required to publish the name of each license holder who is the subject of a disciplinary action along with a summary of the violation and action taken by the Board. Since the following are summaries of actions taken by the Board, readers may want to contact the Board to obtain a complete copy of the disciplinary action.

Case Number 1997-006 (John J. Avent, CPA) This matter initially was referred to the Board as a result of substandard ratings Mr. Avent received on reports he had submitted to the Quality Enhancement Review Program for the years 1994 -1996. As a result of these poor ratings an investigator for the Board conducted an onsite review of Mr. Avent's practice procedures. After considering the

CPA UPDATE – Reflects information from July 2002 – June 2003 Meetings (Cont'd)

results of the investigation the Board and Mr. Avent entered into an Agreed Order to resolve the matter in January of 1998. In December of 1999 a hearing was held before the Board regarding allegations that Mr. Avent had violated the terms of the Agreed Order. The Board entered an Order following the hearing, which found Mr. Avent had violated the Agreed Order and revoked his license for 5 years. That decision was appealed to the Franklin Circuit Court by Mr. Avent and in 2001 the court entered an Order, which required the Board to reduce the penalty imposed. In March of 2001 the Board entered an Order, which reduced Mr. Avent's revocation to 3 years. That decision was appealed to the Franklin Circuit Court, which in March of 2003 ordered the Board to reduce the penalty. The Board and Mr. Avent then entered into an Agreed Order which placed Mr. Avent on probation for two years and required all plain paper reports issued during that time be reviewed by the CPA investigator of the Board prior to issuance. Also the investigator is to review initial write up work prepared by Mr. Avent prior to its issuance. Mr. Avent must undergo peer review if he intends to issue any audit, review or compilation.

Case Number 2001-013 (McDonald & McDonald, PSC) This matter involved a complaint issued by the Board against the firm for failure to be enrolled in and complete a peer review as required by KRS 325.301 and 201 KAR 1:160. Following an investigation, the firm and the Board entered into an Agreed Order. Under the terms of the Agreed Order, the firm shall:

1. Refuse to accept any new engagements to perform audit or review services of any type for new, previous or existing clients;
2. Not provide any type of professional services whatsoever to any client that are associated with an audit or review;
3. Not issue or release any audit or review report in progress;
4. Provide audit and/or review clients with a copy of the Agreed Order and advise them of the need to secure another certified public accountant to provide such services;
5. Continue to participate in an acceptable Peer Review Program and comply with the requirements found in 201 KAR 1:160 for any compilations prepared or issued by the firm; and
6. If, in the future, the firm receives an acceptable Peer Review, they may petition the Board to again be authorized to perform audit and/or review services.
7. The Board and Ms. McDonald further acknowledge that the restrictions and limitations contained in this Order are applicable to the firm of McDonald & McDonald, PSC and any other firm or business entity selected by Ms. McDonald in the future to engage in any of the regulated activities of the Board.

Case Numbers 2002-013 and 2002-015 (J. Theodore Brittain, CPA #3867) The Board received two (2) consumer complaints against Mr. Brittain for failure to provide client records and failure to perform specific parts of an engagement as agreed upon. After several letters and numerous telephone calls, Mr. Brittain resolved the complaints. Following review of the information provided, the Board dismissed the complaints filed against Mr. Brittain, but decided to take action against him due to his failure to respond to Board inquiries, which is a violation of KRS 325.340(1)(i). An Agreed Order was issued and the terms of that Order are as follows:

1. Mr. Brittain's license is censured. The censure shall remain in effect for a period of one year ending August 10, 2003; and
2. Mr. Brittain was fined \$200.00.

Case Number 2001-006 (Joseph A. Montgomery, CPA #5410) On November 25, 2002, Mr. Montgomery appeared in Nelson County Kentucky Circuit Court and entered an Alford plea of guilty to 3 counts of theft by failure to make required disposition of property. In lieu of filing a formal complaint and holding a hearing regarding these charges Mr. Montgomery and the Board entered into an Agreed Order which contains the following terms:

1. Mr. Montgomery's license to practice was revoked for a period of no less than ten (10) years from May 22, 2003;
2. Montgomery agreed that he is not allowed to make application to the Board for a possible re issuance of his license until a period of ten (10) years has passed from May 22, 2003. Any such application for license shall not be considered or granted by the Board unless Mr. Montgomery establishes by a preponderance of the evidence that he has satisfied the following terms and conditions:

CPA UPDATE – Reflects information from July 2002 – June 2003 Meetings (Cont'd)

- (a) Completed all of the terms and conditions of his sentence from the state criminal action, which includes successful completion of any probation;
- (b) Refrains from pleading guilty to or being convicted of a felony in any federal or state court on any other charges;
- (c) Refrains from pleading guilty to or being convicted of a misdemeanor involving theft, fraud, or moral turpitude in any federal or state court on any other charges;
- (d) Not be found guilty by the Board of violating any provision of KRS Chapter 325 or the accompanying administrative regulations;
- (e) Make full restitution to the victims in the above cited state case; and
- (f) Has completed the reinstatement requirements in effect for the year he submits his application for reinstatement, which includes the necessary amount of continuing professional education hours, which at the time the Order was entered into consisted of 80 hours, one half of which must be in auditing and accounting.

Case Number 2002-005 (Ernest W. Sammons, Jr., CPA #5486) Based upon a complaint received from an attorney representing a not for profit foundation, the Board initiated an investigation into whether Mr. Sammons failed to provide various accounting services contracted for by the foundation. After an investigation by the Board staff a Complaint and Notice for Hearing was filed against Mr. Sammons by the Board. Prior to the hearing the Board and Mr. Sammons entered into an Agreed Order to resolve the charges contained in the Complaint. In the Agreed Order Mr. Sammons admitted:

1. He had failed to respond to a Board inquiry regarding a complaint which was in violation of KRS 325.340(1)(i), and
2. That he failed to perform certain accounting services, which constituted negligence while performing a public accounting service in violation of KRS 325.340 (1)(b).

As a result of these admissions and Mr. Sammons decision not to seek renewal of his license, he was ordered to:

1. Pay a \$200.00 fine; and
2. Reimburse the Board \$538.75 for investigative fees incurred for investigating this matter.

In addition if in the future Mr. Sammons seeks to have his license reinstated he shall:

1. Comply with the reinstatement requirements in effect at that time. At the present time those requirements consist of paying \$200 to reinstate his license and obtaining 80 hours of CPE half of which are in accounting and auditing and some amount of the remaining 40 hours in tax related matters; and
2. If the Board decides to reinstate his license it would be under terms of probation for a period of one year from the date of reinstatement. Any violation of any of the accounting statutes or regulations during that one-year period would result in a 5-year suspension of his license.

Case Number 2002-012 (S. Rodney Welch, CPA #2035 and Welch and Company CPA's PSC) Based upon a complaint received from the Kentucky Department of Education regarding a school board audit prepared by Mr. Welch and issued by Welch & Company CPA's PSC, the Board conducted an investigation of the audit. Following a review of the responses to the complaint by Mr. Welch and a report by the CPA investigator for the Board an Agreed Order was entered into. The most significant terms of the Order are as follows:

1. Mr. Welch and the Firm are placed on probation from April 24, 2003 until July 1, 2004. This probationary period shall not automatically expire on July 1, 2004. Instead the Board will review the status of Mr. Welch's and the Firm's compliance with the provisions of this Order prior to July 1, 2004 to determine if the period should expire or be extended.
2. While on probation, Mr. Welch, and any firm where he holds an ownership interest or is employed, and the Firm shall not issue an audit report on any school board audit unless the audit report is first reviewed and approved by a Kentucky licensed CPA designated by the Board according to the provisions of the Order.
3. The CPA designated by the Board shall insure that all audits are prepared and issued in accordance with all applicable auditing standards and practices.

CPA UPDATE – Reflects information from July 2002 – June 2003 Meetings (Cont'd)

4. Mr. Welch is responsible for any and all costs associated with the pre-issuance reviews.
5. Welch shall obtain 16 hours of continuing professional education in audits subject to Government Auditing Standards by July 1, 2004. These hours may be part of the continuing professional education hours the Respondent is required by regulation to obtain to maintain his license as a CPA.
6. Mr. Welch shall reimburse the Board \$848.00 for the costs associated with the CPA Investigator's review of this case.

Case Number 2002-025 (Bruce W. Hutcherson, CPA #4508) A complaint was received by the Board from a former client of Mr. Hutcherson in which it was alleged that Mr. Hutcherson had failed to respond to a request to return tax related documents and failed to provide a copy of a recent tax return he had prepared for the client. The Board attempted to obtain a response to this complaint by providing a copy of it to Mr. Hutcherson through the regular mail and also by sending one of its investigators to interview him. Mr. Hutcherson subsequently returned the requested documents to his former client and the client choose not to pursue the complaint. However due to Mr. Hutcherson's failure to respond in a timely manner to the requests of the Board an Agreed Order was entered into with Mr. Hutcherson in which he admitted to having failed to respond to a Board inquiry, in violation of KRS 325.340(1)(i) and agreed that:

1. His license is censured for a period of one year from March 20, 2003; and
2. He pays a fine of \$200.00 to the Board no later than March 3, 2003.

Case Number 2002-035 (Ronald J. Epling, CPA #3267) On or about February 25, 2003, Mr. Epling appeared in Boone County Kentucky Circuit Court and entered a guilty plea to 35 felony counts of theft which involved more than \$2.8 million in funds belonging to the city of Florence, KY. As a result of this guilty plea the Board and Mr. Epling entered into an Agreed Order whereby his individual license to practice as a CPA was permanently revoked.

Case Number 2002-006 (Hawkins & Company, PSC) Hawkins & Company's license to practice expired as of July 1, 2002. Staff of the Board contacted the firm to determine the reason for the firm failing to renew its license and if it was still engaged in the practice of public accounting. The firm then attempted to renew its license without having successfully completed the peer review process. The Board refused to renew the license. Following the issuance of additional correspondence by the Board to the firm and a visit to the firm by the investigator for the Board, the Board and the firm entered into an Agreed Order to resolve the matter. In the Agreed Order the Firm admitted that it had operated as a CPA firm without holding a valid license in violation of KRS 325.380(2). As a result of that admission the Order required:

1. The Firm pay a fine of \$500;
2. Pay the costs of the investigation which totaled \$435; and
3. The Firm was placed on probation for a period of two years from the date a license is issued by the Board.

Case Number 2003-007 (William E. Chady, CPA, PSC) As of July 1, 2002, the Firm's license and Mr. Chady's individual license expired. After the expiration of these licenses the Board discovered through the use of it's investigator that Mr. Chady and the Firm were continuing to be held out to the public as a CPA and a CPA firm respectively. Thereafter Mr. Chady and the Board entered into an Agreed Order that required:

1. The Firm and Mr. Chady immediately cease and desist from holding out as a CPA firm and a CPA respectively;
2. The Firm and Mr. Chady immediately cease to provide any type of public accounting services;
3. To be considered for new licenses, pay a \$500.00 fine and the cost of the investigation which amounted to \$105; and
4. Be placed on probation for two years following the issuance of new licenses.

CPA UPDATE – Reflects information from July 2002 – June 2003 Meetings (Cont'd)

Case Numbers 2002-024 and 027 (Jeffrey S. Ginn and Jeffrey S. Ginn, PLLC) On November 21, 2002, Mr. Ginn appeared in United States District Court for the Eastern District of Kentucky at Lexington and entered a plea of guilty to 2 felony counts of fraud. As a result of the entry of this guilty plea the Board and Mr. Ginn entered into an Agreed Order that provides:

1. His individual and firm licenses are revoked for ten (10) years from March 20, 2003;
2. Mr. Ginn is prohibited from applying for a firm or individual license even after the passage of ten (10) years until he establishes by a preponderance of the evidence the following:
 - (a) He has completed all of terms and conditions of his probation from the federal criminal action;
 - (b) He does not plead guilty or be convicted of any felony or any misdemeanor involving theft, fraud, or moral turpitude;
 - (c) Not be found guilty of the Board of violating any other provision of KRS Chapter 325 and the accompanying regulations;
 - (d) Make full restitution to all of his victims in the federal criminal case;
 - (e) Complete all of the reinstatement requirements in effect at the time he attempts to be reinstated.

State Board Administers Last Paper-and-Pencil CPA Exam

The November 2003 Uniform CPA Examination will be held at the Clarion Hotel & Convention Center (formerly the Hurstbourne Hotel and Convention Center) on November 5-6, 2003. Currently, 677 candidates are scheduled to take the exam. CPA proctors are needed to assist with the administration of the exam. If you are willing to donate ½ day of your time to participate in this historic event, you are encouraged to contact Debby Abell at the Board office (502.595.3037). Following is a schedule of dates and times where your assistance is needed and, as always, is greatly appreciated.

Wednesday, November 5, 2003	Thursday, November 6, 2003
LPR – 8:30 a.m. until 12:30 p.m.	ARE - 8:00 a.m. until 12:30 p.m.
AUDIT - 1:00 p.m. until 6:30 p.m.	FARE - 1:00 p.m. until 6:30 p.m.

CBT – In a Nut Shell

As noted earlier in this publication, the first administration of the Computer Based Test (“CBT”) is set for April 5, 2004. It is anticipated that applications for the CBT will be accepted sometime in January of 2004. In the coming months, a special mailing will be sent to all current candidates, CPA firms, colleges and universities throughout the state outlining specific changes associated with the implementation of the CBT. Following is a brief overview of some of the significant changes between the two exams.

Candidates will be able to apply for the CBT on a daily basis. They may take one or more sections of the exam at a time and in any sequence, however they may only sit for each section once in during a testing “window”. A testing “window” will consist of a three-month period of time comprised of two-months in which the examination will be administered and one month in which the exam will not be offered while routine maintenance is performed and the item bank is refreshed. There are four testing “windows” each year. The CBT will be administered at Prometric testing centers. Currently there are two locations in Kentucky—one in Louisville and one in Lexington. Kentucky candidates will be allowed to utilize test sites located in other states to ease the travel burden. Due to the costs incurred with the conversion of the exam and providing the exam on a more convenient basis the fees to be charged by the AICPA, NASBA and Prometric will be as follows: \$134.50-AUD, \$126.00-FAR, \$109.00-REG, and \$100.50-BEC. The Board will charge \$30 for an initial application and \$30 per section. Once the initial application is filed the candidate will only be charged the \$30 per section fee. Credit will be granted for each section on which a grade of 75 or higher is received. This credit can be retained for 18-months from the date the passed section was taken. No minimum score is required on failed sections. In the event the other three sections are not passed within the 18-month period, credit for the passed section will expire and that section must be retaken. It should be noted that the term “conditional credit” will no longer be used. Candidates who have earned conditional credit on the paper-and-pencil exam will be granted credits for the corresponding sections of the CBT and will be allowed a transition period to pass the remaining sections. **Current candidates with less than 150-semester hours must pass all sections of the CBT by March 2007. After that date, the application will be cancelled and the candidate must meet the 150-hour requirement to apply for the CBT.** For more information visit the following websites <http://cpa.state.ky.us>; www.cpa-exam.org and www.nasba.org All are excellent sources of information.